# 4

# Matters of mutual economic and policy interest

## Retirement savings

### New Zealand superannuation

4.1 New Zealand superannuation provides a universal basic public pension. It is paid to all New Zealanders over age 65 irrespective of past income, current income or wealth. It is colloquially referred to as "65 at 65" because a single person living alone receives 65 per cent of what a pension-age married couple household receive. All rates are calculated from the married couple rate.

4.2 When New Zealand married couples reach 65 years of age, they receive, as a household unit, approximately 66 per cent of the Net Average Ordinary Time Weekly Earnings as a pension.[1] From 1 April 2007 a married or civil union couple receive after tax income of NZ$426.24 per week from the public pension.[2] A single person household receives after tax income of NZ$277.06 per week, while a single person sharing a household receives after tax income of NZ$255.74 per week.

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1 Approximately 33 per cent of the National Average Wage each, which is subject to marginal tax. Legislated under the *New Zealand Superannuation and Retirement Income Act 2001.*

2 Net Average Ordinary Time Weekly Earnings based on the December 2006 quarter was NZ$645.82 per week.

4.3 The universality of the scheme means it is administratively simple and as it is not means tested it encourages private savings and for people to continue to work past retirement age.

4.4 In contrast, Australia has a safety net Age Pension which is available for eligible Australians between the ages of 63 and 65.[3] The pension is means tested, and as such, pension income is calculated on a sliding scale. In addition, Australia has a compulsory superannuation savings scheme which requires employees to contribute nine per cent of an employee's salary (when salary exceeds a certain income threshold) to superannuation. This contribution is preserved until an employee retires and reaches age 55—60.[4]

4.5 A public fund, the 'New Zealand Superannuation Fund', has been established in New Zealand to provide part pre-funding of the public universal pension.

4.6 The investment performance of the fund has been very good, returning around 15.3 per cent per annum.[5] Growth is forecast to be around 8.2 per cent over the next ten years. The fund's current value is NZ$13.3 billion as at 31 May 2007.[6] This fund is legislated to have fund contributions and to always have surpluses. It will not be drawn down until 2028.

## KiwiSaver

4.7 New Zealand ranks low in the OECD average of private superannuation schemes.[7] There are currently 590 private schemes of which 431 are employer schemes and 120 are retail schemes. Approximately 638 123 New Zealanders currently belong to a private superannuation scheme; of those, 304 622 are members of employer schemes and 333 443 are members of retail schemes.[8]

4.8 Net household savings as a percentage of GDP have steadily declined since the late 1980s. This is likely to be partly related to the non-means

3 Men can access the Age pension at age 65. Pension age for a female is being raised by six months every two years so that by 2014 male and female eligibility age will be the same.

4 The preservation age will remain at 55 years for a person born prior to 1 July 1960, while for someone born after 30 June 1964 the preservation age rises to 60.

5 New Zealand Superannuation Fund, Performance, 31 May 2007. Website viewed 27 August 2007, <http://www.nzsuperfund.co.nz/index.asp?pageID=2145831960>.

6 New Zealand Superannuation Fund, Performance, 31 May 2007. Website viewed 27 August 2007, <http://www.nzsuperfund.co.nz/index.asp?pageID=2145831960>.

7 OECD Economic Survey of New Zealand 2007. Web site viewed 28 August 2007, http://www.oecd.org/document/10/0,3343,en_2649_34569_38394186_1_1_1_1,00.html.

8 Superannuation fund data provided by Inland Revenue New Zealand.

tested, bi-partisan supported public pension and partly because there is currently no portability of superannuation between private schemes. In addition, with a housing boom underway, much of household disposable income is being channelled into housing and not into financial assets or savings.

4.9 To encourage voluntary savings the New Zealand Government has introduced an auto-enrolment savings scheme, KiwiSaver, primarily for retirement income purposes, which commenced on 1 July 2007, just before the delegation's visit. This scheme is designed to complement New Zealand superannuation, not replace it.

4.10 A feature of the savings scheme is its portability between New Zealand employers. KiwiSaver schemes are offered by private superannuation providers and thus it is not a government guaranteed scheme. Much of the scheme collections are administered through the Inland Revenue Department—PAYE deductions include the contributions and are sent to Inland Revenue on the monthly schedule.

4.11 Automatic enrolment occurs when an employee commences with a new employer and they have an eight week window of opportunity to opt-out of the scheme. Existing employees and other savers (self-employed, beneficiaries etc) may elect to join KiwiSaver. The default contribution is four per cent of gross salary or wages but a contributor may elect to contribute eight per cent. A default KiwiSaver scheme is selected if the contributor does not choose their own KiwiSaver scheme.

4.12 The scheme involves employee, employer and government contributions. From 1 July 2008 employers will be required to contribute to the scheme for all employees participating in KiwiSaver.

4.13 There will be a three year transitional period of rising contributions starting at one per cent of an employee's gross salary and rising to four per cent by 1 April 2011. The employer does not have to make a contribution if an employee earns less than NZ$26 000. At earnings exceeding NZ$26 000 the employer matches the employee's contribution up to NZ$20 per week. The scheme also provides tax credits to employees for their matched contributions to an employee's fund which reduces the cost of the scheme on the employer.

4.14 The scheme provides generous incentives—most focussed on creating a savings ethos and retaining people (and thus skills) in New Zealand. For example, the KiwiSaver scheme provides a $1 000 savings bonus for new members and an annual fee subsidy. It also includes the ability to withdraw fund contributions for the purchase of a first home and provides a deposit subsidy of up to $5 000 per member. Another feature is the ability of contributors to take a 'savings holiday' for a period of up to five years, after a minimum of 12 months of contributions.

4.15 The scheme is expected to be taken-up by around fifty percent of the labour force by 2017. Very early feedback on the scheme indicated that a number of large employers were choosing to offer joint-contributions before the 1 July 2008 compulsory deadline.

### Australia-New Zealand retirement savings portability

4.16 Whilst the New Zealand and Australian Governments wish to retain their skilled labour forces it is also recognised that a 'labour swill', where skilled workers move between economies, is a global phenomena.

4.17 As Australia and New Zealand share common bonds, trans-Tasman labour movements are expected to increase over the coming decades. Given this, the portability of superannuation between the economies is a growing issue, particularly as Australia has a compulsory superannuation system. This issue is likely to exacerbate with the commencement of New Zealand's KiwiSaver scheme.

4.18 In January 2007 the Australian and New Zealand Governments agreed to establish a retirement savings working group to consider the issue of portability of retirement savings across the Tasman.

4.19 The Australian Superannuation Guarantee Scheme is based on the principle of preservation until retirement age. Whilst KiwiSaver primarily follows the same preservation principles it allows a one-off early access to retirement savings for first home purchase.

4.20 In February 2008 the Australian Treasurer and the New Zealand Minister of Finance will meet for further discussions on this issue.

## The New Zealand manufacturing sector

### Current state

4.21 At the time of the delegation's visit to New Zealand the House Economics Committee was in the final stages of the inquiry into the state of Australia's manufacturing sector.[9] The delegation was therefore interested

9 The report, *Australian Manufacturing: today and tomorrow*, was tabled on 13 August 2007.

to discuss the state-of-play in New Zealand's manufacturing sector, future directions and the current manufacturing strategy.

4.22 The New Zealand manufacturing sector has never been large. Its top five exports are dominated by primary industry products as can be seen in Table 4.1. These are dairy; meat; horticulture; forestry and tourism. Food and live animals account for more than half of all exports.[10] Leading manufacturing sectors are food processing, wood and paper products, and metal fabrication.

4.23 New Zealand has not been strong at transforming primary exports into higher-value products and as such net exports comprise a similar proportion of GDP as they did in the 1980s. That said, if meat and dairy products are included in the figure, manufacturing accounts for a significant 63 per cent of New Zealand's exports.[11]

4.24 The sector is growing, yet not as fast as other sectors. In line with this trend the share of manufacturing employment in New Zealand has been reasonably static, at around 14 per cent over the last ten years. However, the proportion of elaborately transformed manufactures has grown significantly—in 2005 they comprised 32 per cent of New Zealand's exports, up from 19.3 per cent in 1990.[12]

4.25 Australia is New Zealand's number one trading partner with approximately 21 per cent of its exports going to Australia.

10 Statistics New Zealand, *Overseas merchandise trade*, Cat 53.900 Set 06/07 – 126, 26 February 2007.

11 New Zealand Trade and Enterprise, *Manufacturing +: A Vision for World Leading New Zealand Manufacturers*—A Strategic Framework Shortform Report, November 2006, p. 1.

12 New Zealand Trade and Enterprise, *Manufacturing+: A Vision for World Leading New Zealand Manufacturers*—A Strategic Framework Shortform Report, November 2006, p. 1.

Table 4.1 New Zealand exports—Top 15 commodities year ended May 2007

| Commodity | NZ$ million |
|---|---|
| Milk powder, butter and cheese | 5 669 |
| Meat and edible offal | 4 426 |
| Logs, wood and wood articles | 1 932 |
| Mechanical machinery, equipment | 1 776 |
| Aluminium and aluminium articles | 1 213 |
| Fruit | 1 184 |
| Fish, crustaceans and molluscs | 1 149 |
| Electrical machinery and equipment | 1 103 |
| Iron and steel | 713 |
| Wool | 681 |
| Textiles and textile articles | 651 |
| Casein and caseinates | 645 |
| Beverages, spirits and vinegar | 640 |
| Miscellaneous edible preparations | 612 |
| Wood pulp and waste paper | 503 |

*Source* *Statistics New Zealand*

## Future directions

4.26 New Zealand manufacturing faces many of the opportunities and challenges that Australian manufacturing faces. These include distance from European markets (yet proximity to Asia); expanded entry into global supply chains and/or off-shoring production; having innovative and niche products; and improving management skills and business operations.

4.27 Most manufacturers in New Zealand are small manufacturers. Out of 20 000 manufacturing enterprises, only 353 firms employ more than 100 staff. Seventy per cent of New Zealand manufacturers have fewer than five staff.

4.28 The delegation heard that the future of New Zealand's manufacturing sector, much like that of Australia, lies in design excellence and innovation strengths. The service side of manufacturing is also a largely untapped area of expansion.

4.29 Off-shoring of production is occurring in products that can be produced cheaper where labour costs are lower. 'Ice-breaker' and 'Pumpkin Patch' are two niche clothing brands where the design and research and development is occurring in New Zealand but production is taking place in China. China is able to offer access to high quality production factories and plants located next to competitors who have the same freight costs.

4.30 As New Zealand has a small domestic market, much smaller than Australia's, it appears that some manufacturers are off-shoring not only for labour cost reasons but also to increase scale of production and to be closer to the large markets.[13] For example, Fisher and Paykel, an iconic New Zealand brand, has recently established its parts plant in the US. Having lower transport costs outweighs the higher US labour costs for bulky goods.

4.31 However, producing off-shore is not always a successful strategy. Some manufacturers have brought production back to New Zealand because they want the design and production in the same place. There have been problems experienced by some manufacturers putting a business on Chinese soil; mostly associated with ownership or tenancy rights. Problems have also been reported in using Chinese manufacturers to produce goods, including quality and safety issues.

## Government industry policy

4.32 The New Zealand Government is focussing on making the New Zealand economy a stronger global participant with firms and industries being more flexible and creative. The key to this strategy is investment in science and technology and acquiring and retaining knowledge and skills in New Zealand.

4.33 Being an economy with a strong primary industry focus future prosperity will be enhanced by providing more value-add at every level of production transformation.

4.34 The food and beverage sector is considered an important part of New Zealand's manufacturing sector. As such, the New Zealand Government has concentrated efforts in improving the competitiveness of industries in the food and beverage sector, including capability building and market development.

4.35 In November 2006 a group comprising industry, Government, unions and academia, the "Manufacturing+ Vision Group" (the Group), assessed the state of the New Zealand export manufacturing sector.

13 New Zealand's population is approximately 4.2 million; Australia's population is around 21 million.

4.36 The Group consulted with over 500 New Zealanders with manufacturing interests, assessing the global trends impacting the sector and how manufacturers were adapting to these trends. The project culminated in a report entitled *Manufacturing+: A Vision for World Leading New Zealand Manufacturers.* The report details the results of their findings; trends impacting New Zealand manufacturers; a model of best practice for manufacturers; and a set of recommendations for government policy, industry, trade associations and unions, education and research providers.[14]

4.37 The *Manufacturing*+ report recommendations are contained in a quadrant of areas designed to transform the sector. These include:

- improving manufacturing capability;
- improving manufacturing capacity;
- improving the sector's profile; and
- ensuring ongoing engagement of the manufacturing sector with Government.

4.38 The work of the Manufacturing+ Vision Group commenced in August 2005 and by the conclusion of the report key Government agencies were already working on the recommendations to improve manufacturing capabilities.

## Housing affordability

4.39 New Zealand's housing boom has led to a doubling of house prices since 2002 and accordingly, rents have increased. Home ownership has also consistently declined over the past decade. There are many reasons why housing affordability has declined in New Zealand. It is a multifactorial issue.

4.40 Investor activity has been significant in the housing market, possibly because real estate is the culturally favoured investment option in New Zealand, but also because it has a privileged tax position.

4.41 Both the New Zealand and Australian tax systems are unique in having the ability to deduct losses on rental property. Both countries have capital gains tax on the sale of property, however in New Zealand, capital gains

14 New Zealand Trade and Enterprise, *Manufacturing+: A Vision for World Leading New Zealand Manufacturers*—A Strategic Framework Shortform Report, November 2006, p. 3.

only accrue on the sale of a property if the original *intention* was to make a capital gain. The same capital gains tax framework applies to financial assets but these can not be negatively geared.

4.42 A demographic contributor to falling household affordability is the smaller size of households, and, like Australia, a rising and significant proportion of single households. There has also been significant net migration to New Zealand between the late 1990s and early 2000s which add to housing demand.

4.43 In addition to increasing real household income since the early 1990s, the deregulation of the financial market led to household's ability to borrow more for housing.

4.44 There have also been issues affecting the supply of housing in New Zealand including land availability, planning regulations and construction prices.[15]

## House of Representatives Commerce Committee—inquiry into housing affordability

4.45 The New Zealand House of Representatives Commerce Select Committee is currently inquiring into the cost of housing in New Zealand. The committee's focus is on home ownership rather than broad housing affordability and the terms of reference specifically address first home buyers.

4.46 The terms of reference are to identify all components of the cost of housing for first home buyers in New Zealand and examine significant shifts over time.

15 The Reserve Bank of New Zealand, *Submission to the Commerce Committee on the Inquiry into Housing Affordability in New Zealand*, 14 June 2007, website viewed 14 August 2007, <http://www.parliament.nz/enNZ/SC/Papers/Evidence/9/5/b/95bb598c361c4c4ba98f4f19f8140341.htm>.

The terms of reference request particular attention is given to a detailed list of housing affordability factors, including:

- the effect on land supply, and therefore the price for land, of both
  - ⇒ restraints on land supply for new housing, and
  - ⇒ land 'wastage' through 'large section only' subdivisions.
- household ability to service debt, meet costs of ownership and the changing relationship between income, property prices and mortgage interest rates;
- impact of increasing demand for residential properties by investors;
- local authority planning and approval processes;
- charges and levies imposed at all stages of the housing supply chain;
- building material and building labour costs as compared with those in other similar economies and countries;
- access to finance for house building on multiply owned land;
- impact of changing preferences for home ownership;
- range of financing products available for first home owners. [16]

4.47 The inquiry is also to consider ways to improve the affordability of housing and to identify intervention programs to help individuals and families purchase a home. The terms of reference specifically seek input on 'shared equity','rent to buy' and 'sell and build state housing stock' strategies.

4.48 The inquiry commenced on 1 March 2007. As at 16 August 2007 the committee had authorised 41 submissions from a variety of interested parties including, amongst others, the building industry; community housing organisations; local government; the banking sector; unions; and the Reserve Bank of New Zealand.

## Kiwi Bank

4.49 The delegation met with senior executives of the New Zealand Post Group, New Zealand's corporatised postal entity group, to discuss the

16 Web site viewed 24 August 2007, < http://www.parliament.nz/en-NZ/SC/Papers/Summaries/3/f/0/3f0489134bc54372b31c7c9d8d129140.htm>.

changes to the group's structure and the new wholly owned subsidiary enterprise, Kiwi Bank.

4.50 Kiwi Bank was established in 2002 to meet a niche that had developed in the New Zealand banking market.[17] The rationale for the bank was that there was a gap in the market for people who wanted more community style banking and a bank that kept retail network hours.

4.51 In some New Zealand towns Kiwi Bank returned a face-to-face banking presence. Kiwi Bank reports that in some regions around fifty per cent of the population now banks with them. The bank's branches were initially located in post offices. Kiwi Bank now has an extensive network of around 300 automatic teller machines.

4.52 The three large banks in New Zealand are Australian owned banks—the NAB, Westpac and the ANZ. Kiwi Bank provides direct competition to these banks. Many initiatives developed by Kiwi Bank over the last five years have been followed by the major banks.[18]

4.53 The New Zealand Government provided NZ$60 million in 2002 to help establish Kiwi Bank. In 2007 it has a customer base of around 5 000 with a NZ$3.5 billion balance sheet. The New Zealand Post Group pays dividends to the Government.

4.54 By being innovative Kiwi Bank caters for the rural market but also to low and fixed income customers. Low income customers are most prone to receive late fees and default fees. Kiwi Bank has concentrated on educating customers about these issues and on interacting with customers through mobile phone text messages. For example, customers are advised by text message if a direct pay is due to be taken out of an account to avoid penalty fees.

4.55 To date the Kiwi Bank initiative has proven there is demand for a 'no-frills' bank in New Zealand. It has been a successful subsidiary venture of the New Zealand Post Group.

The Hon Bruce Baird MP
Chair
13 September 2007

17 Kiwi Bank website <http://www.kiwibank.co.nz/about/>.

18 For example no fees on children's accounts; low credit card charges; opening branches again.